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LDC foreign trade policies, whether exphasizing import-substitution or export-promotion, are only part of their overall development strategies. How important a part is a matter to be discussed, although as a general rule, one can state that such part will be relatively greater the smaller the country. Economic size of country, of course, will heavily influence the costs and benefits to be derived from public policies aiming to foster import substitution or exports.

The literature on trade policies and their influence on development is vast and contradictory, and has been reviewed elsewhere.[1] The literature on the negative consequences of that part of import substitution which goes beyond the dictates of comparative advantage, infant industry and optimum tariff arguments is also mountainous. This paper, therefore, will focus on a preliminary interpretation of some aspects of recent Latin American export expansion policies which have been relatively neglected, or which are still controversial. The major questions can be put as follows:

1. In what sense, if any, were import substitution policies a necessary precondition for the export expansion registered in the largest Latin American countries during the 1960s? What about for the 1970s?

2. Have the smallest Latin American countries benefited from the new export expansion? Is there a foreign trade "small country problem" in Latin America?

3. How drastic a policy change was/is necessary to switch a country from an import substituting strategy toward an outward looking one? What seem to have been the key policy instruments in that switch?

4. By how much can export promotion policies influence the different development objectives of the Latin American nations? How much does foreign trade policy "matter" for the different targets? If an ideal "assignment" of instruments to targets can be visualized, to achieving what development targets should trade policy be assigned?

It should be borne in mind that Latin American experience in switching from a strategy emphasizing import substitution toward one giving greater importance to export promotion is relatively recent. If a single date is wanted for such a switch (and for the whole region!), the mid-sixties is as good as any alternative. So the returns are not all in, and what follows must be taken as a mixture of observed facts, hypotheses and speculation.

## A review of some facts

To begin answering the major questions raised above, one must subdivide "Latin America" into plausible and manageable groups of countries. One possible grouping is presented in Table 1, which documents the postwar decline of the Latin American share in world exports. That subdivision follows size, as measured by population, except for Venezuela, whose oil resources make her a very special case. In 1970, the relative importance of the different groups in total Latin American population and merchandise exports were as follows:

| | Percentage of Total 1970 Population | Percentage of Total 1970 Merchandise Exports |
|---|---|---|
| Argentina, Brazil, Colombia, Mexico | 68.3 | 42.0 |
| Venezuela | 3.9 | 16.8 |
| Chile, Cuba, Peru | 11.4 | 21.1 |
| Central American Common Market | 5.4 | 7.0 |
| Other small countries | 11.0 | 13.0 |
| Total | 100% | 100% |
| Absolute Values | 278.8 Million | $15.8 Billion U.S. Dollars |

It may be seen in Table 1 that for all groups the 1970-71 share was below that for 1948-49. The steady decline in the share of the largest countries, however, was the most spectacular. These are the countries where policies to induce import substitution were pursued with particular vigor (as they were also in the medium-sized country, Chile) during the postwar. But these are also the countries alleged to benefit most from the new export boom. More on this below.

A point often ignored in discussions relating to the decline in Latin America's share in world exports is that such participation was abnormally high during the immediate postwar, simply because the Western Hemisphere was spared the ravages of war on its soil. Table 2 presents a comparison of pre- and post-war shares (using slightly different data than Table 1). By 1951 the shares of all groups of countries were still higher than what they had been in 1938; even as late as 1969 the shares of fortunate Venezuela and the Central American Common Market were higher than their corresponding 1938 figures.

Between 1938 and 1948, all of the indicated groups of Latin American countries saw their merchandise exports expand at annual rates exceeding 10 per cent, at current dollars. As may be seen in Table 3, however, the spread in growth rates for the different groups during 1948-58 was much greater, with the biggest and the intermediate countries, except Venezuela, showing growth rates inferior to those of their population. Falling dollar prices for major non-oil Latin American exports, an influence which for those years may be on the whole regarded as exogenous, no doubt contributed to this poor performance. But in spite of that negative influence, the Central American and other small countries did reasonably well relative to world and all-LDC rates of export expansion.

After the weak export performance of 1948-58 there has been a widespread tendency for faster and more stable[2] export expansion, even though such growth remains, on the whole, lower than that for the world and even that for all LDCs. No simple correlation appears to exist for 1958-71 between country size and overall export performance. Only for the most recent, but short period of 1968-71, one notices a clear pulling ahead of the largest countries. Preliminary figures for 1972 indicate that at least for the largest countries the acceleration in export growth continues. But in 1970 the <u>per capita</u> merchandise export of the biggest countries, at current dollars, were still only slightly higher than their 1950 levels, suggesting a drop in the real value of per capita exports. The percentage increases in per capita merchandise exports, expressed in current dollars, between 1950 and 1970, were as follows:

| | |
|---|---|
| Argentina, Brazil, Colombia, Mexico | 8.4% |
| Venezuela | 14.1 |
| Chile, Cuba, Peru | 80.8 |
| Central American Common Market | 112.6 |
| Other small countries | 62.9 |

A closer look at the export performance of the different groups of Latin American countries for 1960-71 has been made possible by a 1973 document of the U.N. Economic Commission for Latin America (UNECLA), which disaggregates exports by geographical destination, and separates primary products from manufactured exports. The latter are defined as those included in section 5, 6 (excluding non-ferrous metals, chapter 68), 7 and 8 of the Standard International Trade Classification (SITC). It should be noted that this definition tends to underestimate manufactured exports, as it leaves out processed foodstuffs, for example.

Table 4 presents average annual growth rates for different groups and categories of merchandise exports, based on the UNECLA data, which are expressed at current dollars. Several points are worth noting. Once again, no simple correlation between country size and overall export performance is evident. The growth rate for manufactured exports from the biggest countries, however, is quite impressive, and clearly exceeds that for small countries not associated with the Central American common market. The expansion of primary product exports during 1960-71 was substantial. It was aided by the recovery of dollar prices for many Latin American exports, which hit (recent) bottom in the early 1960s,[3/] but also by the incorporation to the export lists of several countries of primary products not there during the 1950s. Naturally, what is a "new" primary product to one country may be an "old" one to another, but nevertheless this fact has been ignored in much of the literature on export expansion. Finally, Table 4 shows that for all groups of countries, exports to fellow Latin Americans have grown substantially faster than to the rest of the world. It will be recalled that during the 1960s several preferential trading arrangements were in force within Latin America. They include the Latin American Free Trade Association (LAFTA), the Central American Common Market (CACM), and the Caribbean Free Trade Association (CARIFTA). More recently, the Andean Common Market is developing within LAFTA.

Growth rates by themselves can be misleading if base years show very different export patterns among countries. Table 5 presents the contribution made by different types of exports to the total increase between 1960 and 1971 in the exports of the various groups. Here some sharper contrasts can be noticed. The only group for which increases in manufactured exports going outside Latin America made a substantial contribution to the overall export expansion, was in that formed by the biggest countries. Increments in any kind of manufactured exports made very small contributions to export expansion in Venezuela, Chile, Peru and the non-Central American small countries. Finally, note that even in the biggest countries primary products represented more than sixty per cent of the increase in all exports.

Before completing this statistical review, a point which is partly "accounting" and partly "economics" should be made. Consider the expansion of manufactured exports within the Central American Common Market. Those exports have been added, dollar for dollar, with Central American exports going to the rest of the world. Yet in economic terms those dollars are not really the same thing. The difference can be expressed in two ways. The dollar earned by Nicaragua exporting manufactures to Costa Rica, for example, is much more tied to expanding imports from that or other partner, than a dollar earned by Nicaragua exporting cotton to the rest of the world. Given the pressures for "reciprocity" within preferential trading zones, the first type of export cannot be expected to improve Nicaragua's balance of payments even in the medium run. More fundamentally, the dollar prices at which intra-common market trade takes place can differ from equivalent prices in world markets, reflecting to a larger or smaller degree trade diversion. As preferential trading arrangements expand their shares in LDC trade, it will become increasingly important to disaggregate total export figures by products and zones, and to obtain some rough idea of preference margins existing within preferential zones. Trade in manufactures, of course, should be particularly watched in this respect.

A related point has been emphasized by my colleague Benjamin I. Cohen. Consider now the expansion of manufactured exports from the biggest Latin American countries. These include items such as those produced in Mexico's border with the U.S.A., under special provisions, and which embody a very high import component, in some cases adding only 20 per cent of local value added to imported materials. Clearly, an additional (gross) dollar of those exports has economic implications very different from additional exports of a more traditional kind. With the spread in LDCs of assembly-type export-oriented activities, greater care in analyzing overall gross export figures will be needed. The concept of "returned value," applied to LDC mineral exports, could also be applied to those new activities.

Both points suggest that the high growth rates observed during the 1960s and early 1970s in LDC manufactured exports may give an overly optimistic view of what is going on. But the exact extent of the bias remains to be quantified.

Import substitution: a necessary precondition to expanding exports?

We can now return to our major questions, listed at the beginning of the paper. In the previous section it was seen that even for the big four Latin American countries, primary products accounted for more than half of the export expansion between 1960 and 1971. A closer look at what lies behind this part of export expansion is warranted.

Tables 6, 7, 8 and 9 present the contribution made to total export expansion between 1960 and 1970, 1971 or 1972, of the ten most important export lines during the latter years in Argentina, Brazil, Colombia and Mexico. The tables list products according to their rank in the export lists for 1970, 1971 or 1972. The exact definition of a given export product, or group of products, is of course arbitrary. The exact ranking of product is also sensitive to the end-year used, particularly for Argentina. But these tables emphasize the continued importance for export expansion of items from agriculture, livestock, fishing and mining, even in the case of the largest Latin American nations. Furthermore, several of the items shown reached the top ten export list in recent years even though in 1960 their contribution to exports was either zero or very small. Examples include Argentine sorghum, Brazilian soybeans, Colombian sugar[4/] and Mexican beef. Similar considerations apply to smaller Latin American countries. Tables 6 through 9 also show the diversified nature of post-1960 export expansion for the large countries; such expansion was based on many items, each contributing a relatively small share. Data on the geographical destination of Latin American exports, not shown, also indicate a healthy growth of market diversification.

Assuming the continuation of world trade expansion, and with appropriate domestic policies, much, and even most, of the future export growth of the biggest Latin American countries will be based on new and old primary products and raw materials, even if one regards the 1972-73 commodity boom as abnormal. This is hardly surprising in a world where the United States "rediscovers" its comparative advantage in temperate-zone primary products, where the big powers base their trade on items such as wheat, corn and natural gas, where there is a neo-Malthusian preoccupation with the exhaustion of supplies of several raw materials, and where "unnatural" synthetics are suspected. What is surprising is that not long ago there were some economists who advised Argentina to get out of meat and corn because those products had no future in international trade, while others argued that steel, not wheat, was the foundation of geopolitical power.

Granting that old and new primary products remain a key element in Latin American export plans, and that misguided import substitution policies could have only hurt their prospects,[5/] it may still be argued that import substitution was a necessary precondition to the expansion of manufactured exports. This viewpoint may be summarized by the dictum that "Brazil could not have exported Volkswagens without having import-substituted them first." It can also be noted that Table 5 showed that only the biggest countries, which followed aggressive import-substitution policies, have been able to achieve substantial exports of manufactures outside Latin America.

One can distinguish at least two versions of this argument, which in my view have very different degrees of validity. The most acceptable version is that which stresses the difficulty involved in an LDC (or any country) setting up an industry which from the start is heavily oriented toward foreign markets. There are examples of such industries, but the normal cycle seems to be for an activity to first start operating with sales to the domestic market, with or without competition from imports, and then, once its domestic base and overhead are assured, move on abroad in search of markets, most frequently using marginal cost pricing ("dumping"), and often using protective schemes to monopolize the home market.

A stronger version of the argument stresses the need to have an integrated and diversified industrial structure before one can develop substantial manufactured exports. While the former version points to a "normal" cycle in specific industrial activities, the latter emphasizes the whole industrial sector.

The first version should give little comfort to those who say that the import substitution policies of the 1950s were really necessary for developing manufactured exports in the 1970s. First of all, the industries which arose in Argentina, Brazil, Colombia and Mexico, already in the early part of the Twentieth Century (and even earlier in some cases), did so with modest levels of old fashioned tariff protection, and did not require comprehensive, post-war-type policies of import substitution. The textile, shoe and cement industries, for example, arose mostly as a result of normal market incentives, with only modest (relative to post-war protection) prodding from tariff policies. Secondly, it stretches the imagination to argue that the 1973 exports of Brazilian shoes, or Colombian textiles, or Argentine books, or Mexican frozen strawberries, would not have been possible without the import substitution policies of the 1950s. Indeed, exports of many of these items already occurred in the 1930s and 1940s,[6/] and dried up during the 1950s as a consequence of those policies. Had different policies been followed, say during 1950-65,[7/] the emerging industrial sector would have been somewhat more specialized, and specific industries would have proceeded through their "normal" maturing cycle (first domestic market, then exports) more smoothly and efficiently. The premature widening of industry would have been avoided.

A counter to the above is that in such scenario manufactured exports would have been limited to "simple" products, and the entry into export lists of "sophisticated" items, such as petrochemicals, would have been delayed. This is quite true. But one can doubt the economic benefits for the region of many "sophisticated" exports which now appear in the export lists of Argentina, Brazil, Colombia and Mexico. Note that a significant difference appears to exist between manufactured exports going to other Latin American countries, and those going to the rest of the world. The former tend to be more "sophisticated" but also, alas, more capital- and import-intensive. For example, Colombian exports of cotton textiles, leather and wood manufactures go primarily outside LAFTA, while exports of inorganic chemicals, pharmaceutical products, plastics and rubber tires go overwhelmingly to LAFTA. The two types of exports, of course, will have different consequences for real incomes, the balance of payments, employment, etc. Much of the intra-regional "sophisticated" exports simply represent an effort to recoup the losses arising from excessive import substitution of previous years, often at the expense of trade partners. More worrisome is that some of them could also be symptoms that excesses committed by national import substitution policies are now being repeated at the regional level. And, to make matters worse, it appears that a good share of that trade does not even benefit Latin American entrepreneurs.

To explore further one of these conjectures, the shares of different Colombian exports, excluding coffee and crude petroleum, going to LAFTA, were correlated with the capital-labor ratios computed by Gary Hufbauer[8/] for the U.S., on the assumption that the industry ranking would be the same for Colombia. Taking the 62 three-digit SITC chapters for which Colombian minor exports exceeded one hundred thousand dollars in 1969, and for which matching capital-labor ratios were available in the Hufbauer study, the following result was obtained:

(Share of exports going to LAFTA) =

$$\underset{}{-128.2} + \underset{(3.9)}{18.1} \quad \text{(log. of capital-labor ratio)}$$

$$R^2 = 0.20$$

$$F = 15.24$$

$$\text{Observations} = 62$$

While capital intensity is only one of the many variables which influence whether a given item is exported to LAFTA or elsewhere, the t-ratio shown in parentheses indicates that there is a clearly significant positive link between LAFTA shares and capital intensity. Preliminary results obtained by Larry Senger also show a significant link between LAFTA shares and the use of imported inputs for the Colombian case.

Further research is needed on these points, to clarify the extent to which some of the new exports really represent harmful trade diversion. I should make clear that on balance I consider the moves toward Latin American integration as very positive, partly for political reasons, and that these warnings are made in the spirit of trying to guard against economic excesses spoiling a good thing. Furthermore, at the purely economic level, both a glance at the existing industrial structures of Latin American countries, which contain much duplication from country to country, and the Linder thesis, should convince us that there is much potential trade creation which can be realized by Latin American integration.

So long as world trade continues to expand, and present policies in the big four are roughly maintained, there is little reason to doubt that their manufactured exports will continue to expand at healthy rates. Such expansion could have started earlier, but better late than never.[9]

The export performance of the smaller countries

Argentina, Brazil, Colombia and Mexico have populations which in 1970 ranged from 22 to 93 million. Venezuela, Chile, Peru and Cuba ranged, in the same year, from 8 to 14 million in population. The rest of the Latin American countries had populations in 1970 no higher than 6 million inhabitants. It was seen earlier that the overall export performance of these small countries since the second world war has been better than that of the biggest countries. However, in these countries manufactured exports to markets outside Latin America have made only very modest contribution to overall export growth, and in the most recent years their export growth rate appears to be sagging. Is there, or will there be, a "small-country foreign-trade problem" in Latin America, as it is said to exist in Africa?

First of all, note that our small country category includes countries as different in per capita incomes as Haiti and Uruguay. Yet the issue remains, even if precise definitions of the "small country problem" are hard to find.

The concept of a foreign-trade problem for a small country is a strange one from the viewpoint of traditional pure trade theory. Small countries presumably would have under autarky very different relative prices from those ruling in world markets, and thus can be presumed to gain a great deal from trade. Furthermore, their smallness should imply that they face an almost perfectly elastic world demand for their exports, new or old. No worry here about meeting the Marshall-Lerner condition! So what is the problem?

The actual or potential instability associated with high degrees of specialization could be part of the answer. Economies of scale in manufacturing can also limit the range of profitable economic opportunities for these countries. More importantly, it is likely that the smaller the country, the less dense or the more discontinuous its chain of comparative advantage will be. In other words, to a greater extent than in the large countries, the small nations are characterized by one or two staples in which they have obvious and clear comparative advantage. Indeed, economic history shows that the formation of some small countries as independent units was closely interlinked to the expansion of those key staples. Obvious examples are the oil emirates around the Persian gulf. But between these items and those which follow in terms of comparative advantage, a large gap frequently exists.

The policy problem created by severe discontinuties in the chain of comparative advantage is aggravated in small countries by another factor. In general, large countries have a greater range of policy tools at their disposal than small ones. Exchange rate policy is the clearest example of this generalization. As in large countries pure tradeable goods are a smaller share of the total absorption basket than in the small, they can use exchange rate policy more aggresively to promote new exports, across the board. The small countries are farther away from approaching optimum currency size, in the McKinnon sense, particularly when most of their foodstuffs are either importables or exportables, and thus lose much of the use of exchange rate policy as a weapon of export promotion. Their promotion has to be more selective and less across-the-board. But it is precisely in these countries where it is particularly difficult to find out which is the "next" activity in the potential export list. While in the larger countries generalized incentives can be expected to be met by market responses which will reveal gradually the chain of comparative advantage, such across-the-board incentives in small countries will both threaten monetary stability and generate large quasi-rents (as well as pure rents), to a much larger extent than in present-day large countries.

One can then, a priori, sketch a small-country foreign-trade problems. Whether the "problem" has greater quantitative weight than the advantages of being small in international trade, discussed earlier, and which also include a greater "export mentality" and less temptations to launch misguided import substituting schemes, is unclear, at least for Latin America. So far, small countries have done reasonably well in exporting, but their future performance may be less bright, and may induce further efforts in their part toward regional integration.

The transition toward export promotion in the biggest countries

This section will outline what appear to me to be the major features of the "new" export promotion policies of the biggest Latin American countries. Given space limitations, the presentation will be brief. The reader is again reminded that the experiences to be discussed are quite recent, and require much more analysis than is provided here.

A fundamental feature of the new export promotion policies is that they have involved a package of measures. The package is generally expected to include most of the following: (1) a more favorable real exchange rate; (2) a more stable real exchange rate; (3) some kind of drawback schemes, exempting exporters from import duties and other import restrictions; (4) other tax concessions, such as exemptions from income and sales taxes; (5) special credit facilities, at favorable (subsidized) interest rates; (6) subsidization of other export expenses, such as insurance, freight, promotional expenses abroad, etc.; (7) use of the many regulatory powers of the state (e.g., import controls, investment licensing, agricultural policies, regional policies, etc.,) to exert subtle and not-so-subtle pressure on producers receiving any kind of public support (i.e., most large enterprises) to export an increasing share of their output. Preferential trading arrangements can be regarded as yet another form of export promotion.

As noted earlier, it is reasonably clear that the package is succeeding in generating larger exports of all kinds. But is it difficult to parcel out credit for the success among the different policy instruments. Particularly in the cases of Brazil and Colombia, the adoption of a crawling peg exchange rate policy has been an important element in the policy package.[10/] But note that in neither country the exchange rate applied to non-coffee exports (also excluding crude oil exports in the case of Colombia), when suitably deflated was significantly higher during 1969-71 than it was during 1960-62. The basic data are as follows:[11/]

| | Average exports exchange rate applied to non-coffee exports | | Brazilian Wholesale Prices Deflated by U.S. Wholesale Prices 1963=100 | Colombian Wholesale Prices Deflated by U.S. Wholesale Prices 1963=100 | "Real" exchange rates | |
|---|---|---|---|---|---|---|
| | Brazil (New cruzeiros per U.S.dollars | Colombia (Pesos per dollar) | | | Brazil | Colombia |
| 1960 | 0.158 | 6.92 | 26.9 | 72.90 | 0.587 | 9.61 |
| 1961 | 0.251 | 8.30 | 38.0 | 77.1 | 0.661 | 10.77 |
| 1962 | 0.360 | 9.14 | 56.8 | 79.0 | 0.634 | 11.57 |
| 1969 | 3.998 | 17.32 | 643.3 | 160.4 | 0.621 | 10.80 |
| 1970 | 4.575 | 18.45 | 741.4 | 166.5 | 0.617 | 11.08 |
| 1971 | 5.251 | 20.01 | 870.6 | 177.1 | 0.603 | 11.30 |

According to these data, for Colombia the "real" export exchange rate during 1969-71 was only 4 per cent above its average level of 1960-62; for Brazil it was 2 per cent below. It is of course true that relative to Western Europe and Japan these data imply significant real devaluation, but only for recent years, and it may also be true that the key relationship between the exchange rate and unskilled money wages changed substantially in both countries. But the major contribution of pure exchange rate policy to export promotion in Brazil and Colombia seems to be rather in stabilizing the real exchange rate received by exporters. The crawling peg allows exporters to avoid the disastrous consequences of violent swings in the real value, in local currency, of their exchange earnings. In analyzing econometrically the supply response of Colombian minor exports to exchange rate policy during the postwar period, I have found that an index of the stability of the real exchange rate emerges with coefficients which are not only highly significant, but also of substantial quantitative weight.[12/]

The fiscal, credit and other incentives given to exporters in the biggest countries, such as the Colombian certificate of tax exemption ("CAT" using its Spanish initials) and the generous Brazilian income tax concessions, do give exporters substantial real subsidies, not so easily available during the early 1960s. While many of these schemes are across the board, their incidence on firms of different sizes can vary, complicating the analysis. Many other export incentives, such as direct government promotion abroad or pressure on home industries to export, are almost impossible to quantify and relate systematically to registered export expansion.

These comments suggest a second fundamental feature of the new export promotion policies. In the critique of postwar import substituting policies, very frequently those policies were contrasted with textbook-type neoclassical policies. The new export promotion measures, however, although reducing the tilt of incentives away from import substitution and toward exports, have maintained a good deal of the centralization, government intervention and ad-hockery associated with the old policies. To some extent, it has been simply a matter of redirecting the zeal of interventionist public officials from import substitution toward export promotion. In fact, for industrial exports, often the same large firms which, working closely with the government, benefited most from protection, are those reaping the highest profits from the new export incentives.

In short, contrary to the gloomy warnings of the most orthodox, the switch from emphasis on import substitution toward export promotion did not involve a massive dismantling of the interventionist state apparatus built up during the postwar. While incentives have been redirected toward export promotion, considerable protection is still a fact of life in the largest (and other) Latin American countries. In countries with large non-tradeable (or subsistence) sectors, a public policy of simultaneous promotion of both exports and import-substitution need not be an impossibility. Indeed, as already noted, some of the distortions associated with the "import substitution syndrome," such as quantitative restrictions on imports, and credit rationing with subsidized rates, can be turned around and used to encourage or pressure established firms to export, as has been the case in Colombia since 1967. Finally, and again contrary to some orthodox warnings, it has not been necessary to eliminate domestic inflation as a prerequisite for expanding exports.

The above, of course, says nothing regarding the optimality of the new policies. All it argues is that they are working in achieving their immediate aim of raising export earnings, without drastic changes in other policies. In fact, it is quite likely that "excesses" in export promotion, similar to those observed under import substitution, will become increasingly noted. But on balance, there are reasons to think that even granting the possibility of excesses, basic asymmetries remain between third-best public policies of import substitution and export promotion, with the weight of opinion favoring the latter on efficiency and growth grounds.13/

Export promotion and the several development targets

Much of the export promotion literature is tinged with a Panglosian optimism which can be quite misleading. Let me close this paper on a skeptical note, emphasizing the limitations of export promotion for achieving at least some important development targets.

There is little doubt that the new trade policies are contributing to higher growth rates in the real Gross National Products of many Latin American countries. The export and growth pessimists of the early

1960s have been proven wrong. The mechanics linking export and GNP growth have been discussed often, and they of course can have different quantitative importance depending primarily on country size. Here I would only like to add my hunch that in the biggest countries the favorable effects of the new policies have come about not so much as a result of a long-run reallocation of resources from inefficient import substituting activities toward efficient export industries, but more as a result of the elimination of damaging stop-go cycles which had been caused by the erratic management of balance of payments and macroeconomic short-run policies. In other words, the "foreign exchange constraint" limiting the growth of many Latin American countries during most of the postwar, a constraint to a large extent induced by domestic policies, braked growth not in a smooth and steady way, but operating via the abortion of upward swings in economic activity. As domestic expansion pressed on the balance of payments, the fiscal and monetary brakes were slammed, as the authorities were fearful of exchange rate devaluations. The crawling peg, then, emerges as a key element of the new policies, not only because of the security it gives exporters, but also because of its contribution to smooth macroeconomic policies.

There has been a tendency to assume that the new policies will encourage growth <u>and</u> tend to improve significantly income distribution. This I doubt. Firstly, periods of faster growth are typically accompanied by worsening income distribution. Secondly, as noted earlier, a good share of export expansion in Latin America is based on land-intensive primary products and raw materials. When land, or mineral deposits, are unequally distributed, such expansion will benefit rents captured by a small fraction of the population. Furthermore, foodstuffs such as sugar and beef are growing in importance in the export lists of several Latin American countries. As foodstuffs weigh more heavily in the consumption basket of lower-income groups, changes in domestic relative prices induced by the greater opening of the economy, or the transfer of many foodstuffs from the category of "non-tradeables" to that of "exportables," can exert a regressive influence on real income distribution. In other words, an Argentine-type conflict between efficient foreign trade policies and an equitable income distribution may be in the making for more Latin American countries. And it is not obvious that most of those countries have the will to use instruments such as land taxes to resolve the conflict.

Thirdly, also as noted earlier, many of the new manufactured exports can not be labelled labor-intensive, particularly those going to partners in preferential trading arrangements. Even those manufactured exports going to the rest of the world, and apparently closer to the labor-intensive category (i.e., textiles), are often produced in the largest firms in the country, having much higher capital-labor ratios than smaller firms which hardly enter into exporting, at least in Latin America. It has been reported that in Brazil, around 1970, only eleven companies accounted for more than 50 per cent of the manufactured exports of that country.[14] I have estimated that for Colombia 24 industrial companies accounted for 62 per cent of all industrial exports in 1970. Of those 24 firms, ten were foreign-owned, accounting for 27 per cent of all industrial exports.

In short, a simple application of vague principles derived from a two-factor Heckscher-Ohlin-Samuelson view of international trade is unlikely to be of much help in tracing the impact of growing Latin American exports on income distribution, and may even give the wrong qualitative answer. Sugar and coffee, after all, have historically been produced both on large estates and by peasant farmers, and both under systems of slavery and socialism. Textiles in Colombia are produced both in very large firms, which are highly capitalized, and at the handicraft level. Indeed, during the early postwar, Peronist policies in Argentina encouraged import-substitution <u>and</u> improved income distribution (as well as urban employment) partly by favoring small and medium sized firms.

In countries where handicrafts make up a small share of employment, and where policies do not excessively induce capital-using techniques, one can expect that high overall growth will lead to a fast expansion of employment. Note that the mechanism is likely to go from trade and macro policies which reduce the foreign exchange bottleneck and stop-go cycles, to higher growth and thus to higher employment, rather than being based on any sharp difference betweem the direct and indirect use of labor per unit of import-substituting vs. exported output. The difference in labor use per unit of output between non-tradeable (home) goods and <u>all</u> tradeable goods is likely, in fact, to be greater than such difference between the import-substituting and export sectors.

It is also well to remember that the goal of reducing open unemployment in LDCs is quite distinct from the target of reducing the worst forms of poverty, as those heads of household at the bottom third of the income scale cannot afford the search time often possible for the young and women openly unemployed in the cities.

One last skeptical note deals with the benefits which national entrepreneurs, and more generally the Latin American goal of greater automy, can expect to derive from export expansion, particularly of manufactured exports. Here again the situation in Latin American may be different from that in the Far East. Be that as it may, a remarkable share of the expansion of Latin American manufactured exports has been accounted by foreign-owned firms operating within the area. For 1969, for example, a large sample revealed that about 44 per cent of intra-LAFTA manufactured exports were handled by 175 companies owned 90 per cent or more by foreigners, while another 14 per cent was accounted by joint ventures, for which foreign ownership ranged from 30 to 90 per cent.[15/] It has been widely recognized that "institution building" is a key part of the development process. Surely the creation of companies under national ownership, public or private, which can engage in the search of export markets must be part of "institution building."

In keeping close watch on the consequences of the new foreign trade policies on income distribution, employment and on national ownership and control of its own economic life, Latin American policy-makers, of course, should avoid the temptation of throwing out the baby of export expansion together with the bathwater of its undesirable or ambiguous side-effects. But they should also be on guard against a "tied sale" which would have the region buying some bathwater together with the new baby, and against the naive hope that trade policy instruments by themselves can achieve all of the various Latin American policy targets. The 1960s and early 1970s have shown that national trade policy does indeed matter, and matters a lot, in breaking the foreign exchange bottleneck, in helping to reduce stop-go cycles, and therefore, for increasing the overall growth rate. Its side effects on income distribution, employment and national autonomy are less clear. In particular, trade policy by itself cannot be expected to alleviate mass proverty in the largest countries, where most of the people are, within any reasonable time span.

Table 1

Latin American Exports as Percentages of World Exports, 1948-1971

(Mainly IFS data)

| | Argentina, Brazil, Colombia, Mexico | Venezuela | Chile, Cuba, Peru | Central American Common Market | Other small countries |
|---|---|---|---|---|---|
| 1948-49 | 6.15 | 1.96 | 2.09 | 0.45 | 1.27 |
| 1950-54 | 5.27 | 2.01 | 1.82 | 0.50 | 1.24 |
| 1955-59 | 3.86 | 2.46 | 1.57 | 0.47 | 1.04 |
| 1960-64 | 3.06 | 1.92 | 1.30 | 0.41 | 1.00 |
| 1965-69 | 2.59 | 1.28 | 1.19 | 0.44 | 0.84 |
| 1970-71 | 2.28 | 0.98 | 1.19[a] | 0.38 | 0.71 |

[a]Refers to 1970 only

Sources and method: Data, except for Cuba, obtained from the International Monetary Fund, International Financial Statistics. Data for Cuba obtained from United Nations, Yearbook of International Trade Statistics. Total world exports given by this latter publication are larger than those given in the International Financial Statistics, which have been used for this table. "Other small countries" include Bolivia, Dominican Republic, Ecuador, Haiti, Paraguay, Panama, Uruguay, Guyana, Jamaica and Trinidad and Tobago.

Table 2

Latin American Exports as Percentages of World Exports, 1938-69

(U.N. data)

| | Argentina, Brazil, Colombia, Mexico | Venezuela | Chile, Cuba, Peru | Central American Common Market | Other small countries |
|---|---|---|---|---|---|
| 1938 | 4.11 | 0.77 | 1.50 | 0.31 | 0.90 |
| 1948 | 6.27 | 1.92 | 2.10 | 0.41 | 0.83 |
| 1951 | 4.94 | 1.66 | 1.72 | 0.41 | 1.05 |
| 1961 | 2.71 | 1.78 | 1.21 | 0.34 | 0.90 |
| 1969 | 2.18 | 0.93 | 0.95 | 0.36 | 0.67 |

Sources and method: United Nations, Yearbook of International Trade Statistics, several issues. Total world exports in this source include exports of socialist countries, so such total is larger than that used in Table 1. Professor Charles P. Kindleberger reminds me that there are problems with using 1938 as a reference year, as prices for primary products were particularly depressed then.

Table 3

Average annual growth rates of Latin American and other exports, at current dollar values, 1938-71 (Percentages)

| | 1938-48 | 1948-58 | 1958-68 | 1968-71 |
|---|---|---|---|---|
| Argentina, Brazil, Colombia, Mexico | 14.0 | -0.5 | 4.0 | 10.4 |
| Venezuela | 19.8 | 8.4 | 0.3 | 7.2 |
| Chile, Cuba, Peru | 13.1 | 1.6 | 5.6 | n.a. |
| Central American Common Market | 12.5 | 6.6 | 7.7 | 5.7 |
| Other small countries | 12.4 | 3.9 | 5.5 | 7.2 |
| All LDCs | 11.2 | 4.1 | 6.1 | 11.5 |
| World | 9.4 | 6.0 | 8.4 | 13.6 |
| Addendum: U.S. Wholesale Industrial Price Index | 5.9 | 2.0 | 0.9 | 3.6 |

n.a. = Data are not available for complete period

Sources and Method: As in Tables 1 and 2, and International Monetary Fund, International Financial Statistics

Table 4

Export performance of Latin American countries, by groups of commodities and geographical destination, 1960-1971

(Percentages)

| | Argentina, Brazil, Colombia, Mexico | Venezuela | Chile, Peru | Central American Common Market | Other Small Countries (excluding Haiti) |
|---|---|---|---|---|---|
| Average annual growth rates of dollar value of exports | | | | | |
| All merchandise exports | 6.3 | 2.5 | 6.5 | 9.0 | 5.4 |
| All manufactured exports | 22.0 | 23.4 | 6.1 | 21.8 | 11.0 |
| Primary products | 4.5 | 2.4 | 6.5 | 7.1 | 5.1 |
| All exports to Latin America | 11.8 | 5.2 | 9.7 | 21.0 | 13.2 |
| All exports to the rest of the world | 5.6 | 2.2 | 6.2 | 6.8 | 4.8 |

Sources and method: Basic data obtained from United Nations, Economic Commission for Latin America. Notas sobre la Economía y el Desarrollo De América Latina, Numbers 119, 120 and 121, of January/February 1973. "Manufactured exports" are those included in the sections 5, 6, 7 and 8 (but excluding chapter 68, non-ferrous metals) of the SITC. Cuba and Haiti were excluded due to lack of data.

Table 5

Structure of Export Increases Between 1960 and 1971

(Percentages of the increase in total merchandise exports, at current dollars)

| | Argentina, Brazil, Colombia, Mexico | Venezuela | Chile, Peru | Central American Common Market | Other Small Countries (excluding Haiti) |
|---|---|---|---|---|---|
| Manufactured exports to Latin America | 14.5 | 2.3 | 2.2 | 31.0 | 4.3 |
| Manufactured exports to the Rest of the World | 23.3 | 1.5 | 0.7 | 0.3 | 7.2 |
| Primary products to Latin America | 6.7 | 18.2 | 13.2 | 7.4 | 13.7 |
| Primary Products to the Rest of the World | 55.5 | 78.0 | 83.9 | 61.2 | 74.7 |
| Total | 100% | 100% | 100% | 100% | 100% |

Sources and method: Basic data obtained from United Nations, Economic Commission for Latin America, Notas sobre la Economía y el Desarrollo De América Latina, Numbers 119, 120 and 121, of January/February 1973. "Manufactured exports" are those included in the sections 5, 6, 7 and 8 (but excluding chapter 68, non-ferrous metals) of the SITC, Cuba and Haiti were excluded due to lack of data.

Table 6

Argentina: Contribution to Total Export Expansion Between 1960 and 1971 of the Ten Largest Export Lines in 1971

(in percentages of total export expansion)

| | |
|---|---|
| Corn | 33.9% |
| Frozen, chilled and processed beef | 22.3 |
| Sorghum | 15.6 |
| Hides and skins | -0.2 |
| Wool | -11.7 |
| Pellets, cakes and expellers (animal feed) | 5.0 |
| Other meats, offals and by-products | 3.9 |
| Fresh fruits | 3.8 |
| Wheat | -14.2 |
| Linseed oil | -1.0 |
| TOTAL | 57.5% |

Addendum:

| | |
|---|---|
| Average annual growth rate, dollar value of all merchandise exports, 1960-71 | 4.4% |

Sources and method: Basic data obtained from Dirección Nacional de Estadística y Censos, Boletín Mensual De Estadística, several issues.

Table 7

Brazil: Contribution to Total Export Expansion Between 1960 and 1972 of the Ten Largest Export Lines in 1972, Excluding Green Coffee

(in percentages of the total export expansion)

| | |
|---|---|
| Raw sugar | 9.6% |
| Soybeans, including cake and bran | 10.3 |
| Iron ore | 6.6 |
| Beef: chilled, frozen or processed | 7.9 |
| Raw cotton | 5.3 |
| Boilers, machines and mechanical devices and instruments; including office machines, earth moving and drilling equipment, and machine tools | 3.7 |
| Rolling stock and vehicles | 2.5 |
| Processed coffee | 2.5 |
| Pinewood, sawn | 0.6 |
| Cocoa beans | -0.4 |
| TOTAL | 48.6% |

Addendum:

| | |
|---|---|
| Contribution of Green Coffee to the 1960-72 export expansion | 10.2% |
| Average annual growth rate, dollar value of all merchandise exports, 1960-72 | 10.0% |
| Average annual growth rate, dollar value of all merchandise exports, excluding green coffee, 1960-72 | 15.1% |

Sources and method: Basic data obtained, thanks to Edmar Bacha, from CACEX, INFORMACAO SEMANAL, June 4, 1973; BOLETIM DO BANCO CENTRAL DO BRAZIL, February 1973; and IBGE, O BRASIL EM NUMEROS, 1966.

Table 8

Colombia: Contribution to Total Export Expansion Between 1960 and 1970 of the Ten Largest Export Lines in 1970, Excluding Green Coffee and Crude Petroleum

(in percentages of the total export expansion)

| | |
|---|---|
| Raw cotton | 8.1% |
| Bananas and other fresh fruit | 1.7 |
| Live cattle | 6.4 |
| Raw sugar | 5.5 |
| Fuel oil and other refined petroleum products | 2.6 |
| Cotton textiles | 4.3 |
| Unmanufactured tobacco | 1.8 |
| Pellets, cakes and expellers (animal feed) | 2.3 |
| Leather and its manufactures | 1.9 |
| Frozen and chilled meat | 1.7 |
| TOTAL | 36.1% |

Addendum:

| | |
|---|---|
| Contribution of green coffee and crude petroleum to export expansion, 1960-70 | 41.8% |
| Average annual growth rate, dollar value of all merchandise exports, 1960-70 | 4.7% |
| Average annual growth rate, dollar value of all merchandise exports, excluding green coffee and crude petroleum, 1960-70 | 14.9% |

Sources and method: Basic data obtained from Departamento Administrativo Nacional De Estadística, Anuario De Comercio Exterior, several issues.

Table 9

Mexico: Contribution to Total Export Expansion Between 1960 and 1972 of the Ten Largest Export Lines in 1972

(in percentages of total export expansion)

| | |
|---|---|
| Raw cotton | -0.9% |
| Live cattle | 7.8 |
| Raw sugar | 4.6 |
| Tomatoes | 6.8 |
| Coffee | 1.3 |
| Shrimp | 4.1 |
| Electrical machinery, appliances and parts | 5.7 |
| Parts and pieces of machinery (castings and forgings) | 5.2 |
| Frozen and chilled meat | 4.4 |
| Parts and pieces for transport vehicles | 4.4 |
| TOTAL | 43.4% |

Addendum:

| | |
|---|---|
| Average annual growth rate, dollar value of all merchandise exports, 1960-72 | 7.8% |

Sources and method: Basic data obtained from official foreign trade statistics of Mexico, including those published in Banco Nacional de Comercio Exterior, Comercio Exterior.

## Notes

*Help from Edmar Bacha, Benjamin I. Cohen, Juan Giral, Roberto González-Cofiño, Charles P. Kindleberger, Christina Lanfer and Vahid Nowshirvani are gratefully acknowledged. This paper also benefited from discussions held at the conference on "Problems of International Division of Labor," sponsored by the Kiel Institute of World Economics, during July 1973.

1/ See my "Trade Policies and Economic Development," Yale Economic Growth Center Discussion Paper No. 180, June 1973.

2/ The greater stability of the 1960s export expansion is documented in my "Planning the Foreign Sector in Latin America," The American Economic Review, No. 2, Vol. IX, May 1970, pp. 169-80.

3/ According to UNECLA calculations, export and import dollar unit values for the whole of Latin America (excluding Cuba for lack of data), evolved as follows, with 1963 equal to 100:

| | Exports | Imports | Terms of Trade |
|---|---|---|---|
| 1960 | 103 | 96 | 107 |
| 1965 | 104 | 106 | 98 |
| 1971 | 120 | 116 | 103 |

See UNECLA, Ámerica Latina y la Estrategia de Desarrollo: Primera Evaluación Regional. (mimeo), January 1973, Part II, Table 8, page 83.

4/ The expansion of sugar and tobacco exports experienced by several Latin American countries during the 1960s, however, was to a large extent the consequence of the unfortunate blockade imposed against Cuba by a group of Western Hemisphere nations.

5/ This is not quite right. Import tariffs and restrictions, of course, lead to overvalued exchange rates and negative effective rates of protection to export industries. But it can be argued that these policies may have partly caused the improvement observed in the Latin American terms of trade during the late 1960s. It is difficult to quantify this point, particularly in light of growing African competition to several traditional Latin American staples.

6/ For example, before and during the second world war, Argentina exported leather shoes and cotton and wool textiles. After 1947, however, Argentina manufactured exports fell sharply. See my Essays on the Economic History of the Argentine Republic, (New Haven: Yale University Press, 1970), particularly pp. 262-64.

7/ The debate over the excesses of import substitution should always be placed in historical context, bearing in mind what was happening to world trade. Few would agree that the welfare effects of the protectionist regimes adopted by many Latin American countries during the 1930s were particularly, or even, negative, given the conditions which existed in world markets during those years. No doubt more refined policies could be imagined. But on the whole, policy performance in countries such as Colombia, Brazil and Argentina was reasonably good in the area of foreign trade. During the 1940s the world lived with either war or fear of a new war, which came in the form of a localized conflict in Korea. So perhaps the debate can be narrowed mainly to what went on during 1950-65, or perhaps just 1955-65.

8/ See G. C. Hufbauer, "The Impact of National Characteristics and Technology on the Commodity Composition of Trade in Manufactured Goods," in R. Vernon, editor, The Technology Factor in International Trade, New York: Columbia University Press, 1970. The Colombian data was obtained as in Table 8.

9/ Some consolation for the late start may be derived from the thought that Latin American countries are now in a better position to take advantage of the "backward linkages" arising from export expansion than they were twenty years ago. But not much should be made of this point.

10/ The Brazilian experience has been analyzed in J. B. Donges, Brazil's Trotting Peg; A New Approach to Greater Exchange Rate Flexibility in Less Developed Countries, American Enterprise Institute, Washington, D. C., 1971. Within the 1960s Latin American context, Chile was the first country to adopt a crawling peg (in April 1965), followed by Colombia (in March 1967), and then by Brazil (in 1968). Chile discontinued its crawling peg policy after July 1970.

11/ Data obtained from International Monetary Fund, International Financial Statistics.

12/ Those results, and their limitations, are discussed in my "Minor Colombian Merchandise Exports," Yale Economic Growth Center Discussion Paper No. 149, July 1972.

13/ See in particular J. Bhagwati and A. O. Krueger, "Exchange control, liberalization and economic development," American Economic Review, May 1973.

14/ As reported in UNECLA, "El Desarrollo De Las Exportaciones No Tradicionales De América Latina" (mimeo), January 1973, p. 11.

15/ See Juan Carlos Casas, "Las Multinacionales y el Comercio Latinoamericano," CEMLA Boletín Mensual, Vol. XVIII, No. 12, December 1972, pp. 605-14.